

DOCUMENT RESUME

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[Survey of Defense Accounting System for Assets Returned by Foreign Governments]. September 21, 1977. 3 pp.

Report to Capt. M. Deslanc, Commanding Officer, Department of the Navy: International Logistics Control Office; by Allen R. Voss, Manager, Field Operations Div.: Regional Office (Philadelphia).

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Authority: Naval Material Command Instruction 4900.13B. DOD Instruction 2140.1.

Information was obtained on foreign military sales (FMS) cases for the Return and Exchange (R&E) Program to determine if the Navy was approving the reprocurement or return for credit of equipment from foreign governments that was either not needed in Navy inventories or was beyond economical repair. Under the R&E program procedures, the FMS customer ships an eligible unserviceable item to the Navy and submits a requisition for an equivalent serviceable item. The customer is charged for the item issued and receives a credit for the unserviceable item based on a percentage of the standard price. The customer is billed for applicable administrative and accessorial charges at prescribed percentages of the material price. Findings/Conclusions: At the Navy International Logistics Control Office, the FMS customer is billed for administrative and accessorial charges which are based on net material prices rather than the full price. As a result, the charges billed to FMS customers under the R&E program are substantially less than called for in the Department of Defense Instruction. The administrative and accessorial charges should be based on the full standard price or procurement cost. The cost to the Navy for handling and processing these sales is probably no less than for other FMS, and customers should be charged accordingly. (RRS)



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September 21, 1977

04680

■ Captain M. LeBlanc
Commanding Officer
Navy International Logistics
Control Office
Bayonne, New Jersey 07002

Dear Captain LeBlanc:

Representatives of this office recently visited your command to obtain information on Foreign Military Sales (FMS) cases for the Return and Exchange (R and E) program. This information was needed in connection with a survey we were performing at the Aviation Supply Office and the Ships Parts Control Center. The objective of the survey was to determine if the Navy was approving the reprocurement or return for credit of equipment from foreign governments that was either not needed in Navy inventories or was beyond economical repair.

While at your command, we observed that administrative and accessorial charges were insufficiently billed on items sold to foreign governments under the R and E program. We would like to call your attention to this deficiency, discussed below, so that an unnecessary loss of revenue to the Navy may be avoided.

Under R and E program procedures, spelled out in Naval Material Command Instruction 4900.13B, the FMS customer ships an eligible unserviceable item to the Navy and submits a requisition for an equivalent serviceable item. The customer is charged for the item issued (at standard price or procurement cost) and receives a credit for the unserviceable item turned in. This credit, known as the standard price reduction, is based on a percentage of the standard price. The standard price reduction is offset against the charge for the item issued, and only the net difference appears on the billing statement. The customer is also billed for applicable administrative and accessorial charges at the prescribed percentages of material price.

We observed that the FMS customer is billed for administrative and accessorial charges which are based on the net material price (after standard price reduction) rather than the full price. As a result, the administrative and accessorial charges billed to FMS customers under the R and E program are substantially less than called for in Department of Defense Instruction 2140.1. This instruction provides that administrative and accessorial charges be based on the cost or price of procurement from new production or sales of material furnished from stock.

We identified eight active FMS cases for the R and E program. These cases are listed below together with the estimated administrative and accessorial charges shown on the DD Form 1513.

<u>Country</u>	<u>Case designator</u>	<u>Administrative charges</u>	<u>Accessorial charges</u>
Germany	NAC	-	\$ 8,609
Germany	NAD	-	8,609
Germany	NAE	-	8,609
Germany	NAF	-	11,627
Israel	NAO	\$4,000	-
Israel	NBA	6,123	-
Korea	NAA	1,839	3,218
Korea	NAB	1,245	2,179
Totals		<u>\$13,207</u>	<u>\$42,851</u>

If we assume an average credit of 50 percent of standard price for unserviceable items turned in on the above cases, the estimated charges shown would represent only one-half the amounts called for by Department of Defense Instruction 2140.1.

We believe that administrative and accessorial charges should be based on the full standard price or procurement cost of items issued to FMS customers under the R and E program. The cost to the Navy for handling and processing these sales is probably no less than for other FMS, and customers should be charged accordingly.

We would appreciate receiving your comments on this matter together with information on any remedial action taken or contemplated by your command. We understand that preparation of customer billing statements (DD Form 645) has recently been centralized for all FMS at Denver. It appears to us, however, that the problem is in the material price information inputted by your command for billing purposes.

Copies of this letter are being sent to the Naval Material Command and the Comptroller of the Navy.

We wish to thank you and your staff for the cooperation and courtesies extended to our representatives during their visit to your command.

Sincerely yours,



Allen R. Voss
Regional Manager